CALIFORNIA DAIRY CAMPAIGN

PO Box 2044 Turlock, CA 209-632-0885

April 26, 2006

The Honorable A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

RE: ALTERNATIVE PROPOSAL TO CONSIDER CHANGES IN THE CALIFORNIA MILK STABILIZATION PLAN CLASS 2, 3, 4a and 4b PROVISIONS

Dear Secretary Kawamura:

The California Dairy Campaign would like to submit the following alternative proposal for the June 1, 2006 hearing:

- Establish a variable make allowance that compares the producer cost of production with the commodity values, this relationship is then used to adjust a base make allowances for butter, non-fat dry milk, and cheese on a monthly basis.

- Eliminate the transportation allowance on butter and cheese.

- Floor the butter, NFDM, and cheese prices at the higher of the market price or the federal support purchase prices and;

- Insert language to prohibit the whey value from having a negative impact on the formula.

Under the current system, processors are paid a set rate regardless of prevailing market conditions. A variable make allowance would increase when milk prices are high, thereby giving an incentive to the processor to continue production because the return would be greater.

California producers should be able to benefit from the support program which is a fundamental component of U.S. dairy policy included in the farm bill.

The transportation allowance allows plants to discount product on the market which we feel lowers product values and therefore producer prices.

A floor on whey values will keep whey prices above the make allowance and prevent whey from having a negative impact on the 4b price.

The above adjustments will have modest effect on the 4a and 4b hundredweight prices over the last two years but will provide a significant incentive for plants to become more market oriented in the future.

Respectively submitted,

Andy Zylstra, President

Article III
Class Prices

(D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price, ~~less an f.o.b. California price adjuster of two and eighty five hundredths cents ($0.0285),~~ less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(7) ~~of fifteen and six tenths cents ($0.156)~~, and the result multiplied by a yield factor of one and two– tenths (1.2).

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(8) ~~of fifteen and two tenths cents ($0.152)~~, multiplied by a yield factor of one (1.0).

(3) The butter prices used in calculations pursuant to this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month, or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, whichever is higher.

(4) The nonfat dry milk prices used in calculations pursuant to this Paragraph shall be the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month or the Commodity Credit Corporation Dairy Support Program purchase price for nonfat dry milk powder in effect, whichever is higher.

(5) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the current Class 4a fat price, pursuant to Subparagraph (D)(1), then used in its place shall be the Chicago Mercantile Exchange Grade AA butter price used in the prior month's calculation of the Class 4a fat price. All other Paragraphs that use the Class 4a fat price shall operate as if the price had been established pursuant to Subparagraph (D)(1).

(6) In the event that the California weighted average nonfat dry milk price is not available to calculate the current Class 4a solids-not-fat component price, pursuant to Subparagraph (D)(2), then used in its place shall be the California weighted average nonfat dry milk price used in the prior month's calculation of the Class 4a solids-not-fat price. All other Paragraphs that use the Class 4a solids-not-fat price shall operate as if the solids-not-fat price had been established pursuant to Subparagraph (D)(2).

(7) The manufacturing cost allowance used in Subparagraph (D)(1) shall be twelve

and four tenths cents ($0.124), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Production Cost Comparison.

(8) The manufacturing cost allowance used in Subparagraph (D)(2) shall be fifteen and nine tenths cents ($0.159), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Production Cost Comparison.

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

(1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:

(a) The price per hundredweight computed by the formula using the Cheddar cheese price ~~less an f.o.b. California price adjuster of two and ninety hundredths cents ($0.0290),~~ less a Cheddar cheese manufacturing cost allowance ~~of seventeen and one tenths cents ($0.171),~~ calculated pursuant to Subparagraph (E)(10) all multiplied by a yield factor of ten and two–tenths (10.2).

(b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of ~~fifteen and six tenths cents ($0.156)~~ twelve and four tenths cents ($0.124), less ten cents ($0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

(c) The price per hundredweight computed by the formula using the dry whey price, less a manufacturing cost allowance of twenty cents ($0.20), all multiplied by a yield factor of 5.8. In the event that the product of this formula produces a negative number, then zero ($0.00) will be used.

(2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.

(3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy–two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).

(4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month or the Commodity Credit Corporation Dairy Support Program purchase price for block cheddar cheese in effect, which ever is higher.

(5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current

month or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, which ever is higher.

(6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.

(8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.

(9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.

(10) The manufacturing cost allowance used in Subparagraph (E)(1)(a) shall be sixteen and eight tenths cents ($0.168), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(a), divided by the Production Cost Comparison.

(I) The CDFA Quarterly Cost Comparison Summary State Average Total Cost per hundredweight (COP) and the Commodity Reference Price (CRP) used in Subparagraphs (D)(7), (D)(8) and (E)(10) shall be as follows; For the December Class 4 prices use the July/August/September COP and the December CRP, for January Class 4 prices use the July/August/September COP and the January CRP, for February Class 4 prices use the July/August/September COP and the February CRP, for March Class 4 prices use the October/November/December COP and the March CRP, for April Class 4 prices use the October/November/December COP and the April CRP, for May Class 4 prices use the October/November/December COP and the May CRP, for June Class 4 prices use the January/February/March COP and the June CRP, for July Class 4 prices use the January/February/March COP and the July CRP, for August Class 4 prices use the January/February/March COP and the August CRP, for September Class 4 prices use the April/May/June COP and the September CRP, for October Class 4 prices use the April/May/June COP and the October CRP, for November Class 4 prices use the April/May/June COP and the November CRP.
In the event that the CRP or COP is not available for the specified period, then used in its place shall be the prior month's CRP or COP.

New VMA June 06

		Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05
COP	13.45	12.77	12.91	13.04	13.32	13.01	13.03	13.34	13.29	13.77	13.59	13.36
CRP - Cheese	0	15.54	21.03	21.80	18.11	14.16	15.40	15.73	15.36	15.86	18.18	14.98
CRP - Butter/Powder	0	15.40	15.75	16.02	14.96	15.07	13.94	13.82	13.72	14.37	15.04	14.11
4b Cheese Adj.		121.7%	162.9%	167.1%	136.0%	108.8%	118.2%	117.9%	115.6%	115.2%	133.8%	112.1%
4a Butter/Powder Adj.		120.6%	122.0%	122.8%	112.3%	115.8%	107.0%	103.6%	103.2%	104.4%	110.7%	105.6%
	Base											
Butter VMA	0.1242	0.1498	0.1515	0.1525	0.1395	0.1438	0.1329	0.1287	0.1282	0.1296	0.1374	0.1311
Powder VMA	0.1591	0.1919	0.1941	0.1954	0.1786	0.1843	0.1702	0.1649	0.1642	0.1661	0.1760	0.1680
Cheese VMA	0.168	0.2044	0.2736	0.2808	0.2285	0.1828	0.1986	0.1981	0.1942	0.1935	0.2247	0.1884
	Avg.											
4a - FAT $/lb.		2.3733	2.4644	2.3319	2.1318	1.9655	1.7169	1.9298	1.8697	2.0714	1.9597	1.7296
4a - SNF $/lb		0.6119	0.6175	0.6255	0.6547	0.6513	0.6735	0.6808	0.6834	0.6817	0.6903	0.7121
4a - 3.5,8.7 $/Cwt		13.63	14.00	13.60	13.16	12.55	11.87	12.68	12.49	13.18	12.86	12.25
Difference (VMA-Current)	0.01	-0.30	-0.33	-0.34	-0.14	-0.21	-0.04	0.02	0.03	0.01	-0.11	-0.01
4b - FAT $/lb.		2.3733	2.4644	2.3319	2.1318	1.9655	1.7169	1.9298	1.8697	2.0714	1.9597	1.7296
4b - SNF $/lb		0.8396	1.1965	1.1491	0.9765	0.6836	0.9095	0.8267	0.8057	0.9027	0.8939	0.9578
4b - 3.5,8.7 $/Cwt		15.61	19.03	18.16	15.96	12.83	13.92	13.95	13.55	15.10	14.64	14.39
Difference (VMA-Current)	0.02	0.05	-0.84	-0.92	-0.39	0.07	-0.09	-0.09	-0.05	-0.04	-0.35	0.01
Difference (VMA-Cls. III)	-0.47	1.12	-0.63	-2.42	-1.72	-2.02	-0.12	-0.77	-0.61	0.21	-1.50	0.25
Difference (4b - Cls. III)	-0.49	1.08	0.22	-1.51	-1.33	-2.09	-0.03	-0.69	-0.56	0.25	-1.15	0.23

Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06
13.69	12.92	13.12	13.02	13.22	13.53	13.57	13.91	13.96	14.1	13.85	13.85	13.85	13.85	13.85
15.84	15.51	16.13	14.52	14.95	15.59	14.11	15.07	15.28	13.97	14.25	13.75	12.47	11.41	11.79
14.34	14.17	14.23	13.64	13.80	14.97	14.98	15.31	15.14	14.74	14.22	14.06	12.72	12.24	12.05
115.7%	120.0%	123.0%	111.5%	113.1%	115.3%	104.0%	108.3%	109.4%	99.1%	102.9%	99.3%	90.0%	82.4%	85.1%
104.7%	109.6%	108.5%	104.7%	104.4%	110.7%	110.4%	110.1%	108.4%	104.6%	102.7%	101.5%	91.9%	88.4%	87.0%
0.1301	0.1362	0.1347	0.1301	0.1297	0.1375	0.1371	0.1367	0.1347	0.1299	0.1275	0.1261	0.1141	0.1098	0.1081
0.1666	0.1744	0.1726	0.1667	0.1661	0.1761	0.1756	0.1752	0.1725	0.1664	0.1633	0.1615	0.1462	0.1406	0.1384
0.1944	0.2016	0.2066	0.1873	0.1900	0.1936	0.1747	0.1820	0.1839	0.1665	0.1729	0.1668	0.1513	0.1384	0.1430
1.7724	1.7018	1.6598	1.5269	1.6351	1.8033	1.8353	1.8877	1.8096	1.5994	1.4847	1.4751	1.3141	1.2711	1.2576
0.7199	0.7202	0.7281	0.7442	0.7387	0.7440	0.7618	0.7748	0.7957	0.8060	0.8095	0.7744	0.7266	0.7075	0.7097
12.47	12.22	12.14	11.82	12.15	12.78	13.05	13.35	13.26	12.61	12.24	11.90	10.92	10.60	10.58
0.00	-0.09	0.03	0.10	0.11	-0.01	-0.01	0.00	0.03	0.10	0.14	0.16	0.35	0.41	0.44
1.7724	1.7018	1.6598	1.5269	1.6351	1.8033	1.8353	1.8877	1.8096	1.5994	1.4847	1.4751	1.3141	1.2711	1.2576
0.8823	0.8947	0.9737	0.9403	0.9208	0.8925	0.7837	0.8973	0.8669	0.8538	0.9578	0.8886	0.8064	0.7608	0.7702
13.88	13.74	14.28	13.52	13.73	14.08	13.24	14.41	13.88	13.03	13.53	12.89	11.62	11.07	11.10
-0.05	-0.12	-0.07	0.12	0.10	0.06	0.25	0.18	0.16	0.34	0.27	0.33	0.49	0.61	0.57
-0.82	-0.34	-0.33	-0.25	-0.19	-0.27	-0.36	0.11	-0.47	-0.32	0.16	-0.50	-0.58	-0.04	0.16
-0.77	-0.22	-0.26	-0.37	-0.28	-0.34	-0.61	-0.07	-0.63	-0.66	-0.11	-0.83	-1.07	-0.66	-0.41